

Message Text

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ACTION EUR-12

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TAGS: EFIN, IT

SUBJECT: GOVERNMENT BAILS OUT FIRMS IN FINANCIAL DIFFICULTIES

1. IN ONE OF ITS LAST ACTIONS OF 1977, THE ANDREOTTI GOVERNMENT APPROVED (BY DECREE LAW) A 400 BILLION LIRE BAIL-OUT IN THE FORM OF GOVERNMENT GUARANTEE OF BANK LOANS (300 BILLION LIRE) FOR THE PRIVATE SECTOR AND INCREASE IN ENDOWMENT FUNDS (100 BILLION LIRE) FOR PUBLIC INDUSTRIAL FIRMS IN SERIOUS FINANCIAL DIFFICULTIES. THE 300 BILLION LIRE LOAN GUARANTEE IS TO BENEFIT FIRMS IN THE PETROCHEMICAL AND STEEL SECTORS, WHILE THE 100 BILLION LIRE (TOTAL) IS TO INCREASE THE ENDOWMENT FUNDS OF IRI, ENI AND EFIM (ALL STATE HOLDING COMPANIES) FOR THE PURPOSE OF FINANCIALLY RESTRUCTURING THREE OF THEIR COMPONENT PUBLIC ENTERPRISES: UNIDAL (FOODS - 50 BILLION), CHIMICA E FIBRE DEL TIRSO (CHEMICALS AND TEXTILES - 25 BILLION) AND ALSAR (ALUMINUM - 25 BILLION). AS TO THE BENEFICIARIES OF THE 300 BILLION LIRE, CIPI (INTERMINISTERIAL INDUSTRIAL PLANNING

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COMMITTEE) IS TO PRESENT A LIST OF FIRMS IN NEED (WHICH REPORTEDLY EMPLOY 50,000 WORKERS) TO THE GOVERNMENT BY JANUARY 31. THE LOANS WILL BE MADE BY STATE-OWNED BANKS AND WILL BE OF ONE-YEAR DURATION AT A RATE OF INTEREST OF 12.5 PERCENT (1.0 PERCENT ABOVE THE DISCOUNT RATE). CIPI WILL DEFINE WHAT CONDITIONS AND FURTHER OBLIGATIONS THE FIRMS MUST ASSUME IN PRESENTING RE-ORGANIZATION PLANS. IF THE FIRMS DEFAULT THEY WILL GO AUTO-

MATICALLY INTO BANKRUPTCY.

2. COMMENT. THIS GOVERNMENT OPERATION HAS RECEIVED THE APPROVAL OF MOST OF THE OTHER SIGNATORIES OF THE SIX-PARTY ACCORD AND, AS EXPECTED, OF THE LABOR UNIONS AND SHOULD, THEREFORE, BE PASSED BY PARLIAMENT WITHIN THE 60-DAY TIME LIMIT. THE CRITICS, WHICH ALLEGEDLY INCLUDED THE MINISTER OF STATE PARTICIPATION AND THE MINISTER OF INDUSTRY AND COMMERCE, FEAR THAT THIS ACTION MAY: (1) LEAD OTHER ENTITIES IN FINANCIAL DIFFICULTY TO SEEK GOVERNMENT ASSISTANCE, AND (2) DILUTE EFFORTS TOWARD A FUNDAMENTAL RESTRUCTURING OF INDUSTRY, WHICH IS TO BE UNDERTAKEN UNDER A RECENTLY-ENACTED INDUSTRIAL RECONVERSION LAW. THIS LATEST INTERVENTION IS SYMPTOMATIC OF A GENERAL TREND, EVER MORE EVIDENT IN RECENT YEARS, OF INCREASING GOVERNMENT PARTICIPATION IN THE ECONOMY. AT THE SAME TIME, WE HAVE SEEN THAT THE GOVERNMENT'S DECISION-MAKING IN THIS PROCESS IS BASED MORE AND MORE ON SOCIAL CRITERIA (I.E., SAVING JOBS) THAN ON ECONOMIC RATIONALE. HENCE, WHEREAS ITALY'S SYSTEM OF STATE PARTICIPATION WAS SEEN BY MANY IN THE 1960'S AS A MODEL FOR GOVERNMENT INTERVENTION IN THE ECONOMY, IT HAS IN RECENT YEARS BECOME, MAINLY IN RESPONSE TO PRESSURES FROM THE UNIONS, AN INEFFICIENT SYSTEM OF UNEMPLOYMENT COMPENSATION. AT A TIME WHEN PUBLIC EXPENDITURES AND THE GOVERNMENT BUDGET DEFICIT MUST BE REDUCED IF THE ECONOMIC SITUATION IS TO BE KEPT "UNDER CONTROL", GOVERNMENT BAIL-OUTS OF THIS LATEST TYPE ARE NOT A GOOD OMEN FOR THINGS TO COME. WHILE THE 300 BILLION LIRE IN GOVERNMENT LIMITED OFFICIAL USE

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GUARANTEES WILL NOT SHOW UP IN THE GOVERNMENT'S BUDGET DEFICIT, THE EFFECT ON CREDIT MARKETS AND ON THE ECONOMY WILL BE THE SAME AS IF THE GOVERNMENT ITSELF HAD BORROWED THE MONEY AND RELENTED IT TO THE FIRMS IN QUESTION. GARDNER

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